

Rolf Strauch Presents ESM Evaluation Report in Vienna

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Speeches

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Presentation ESM Evaluation Report

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Ladies and gentlemen,

It is a pleasure to speak to you today on behalf of the ESM. First of all, I would like to thank the High-Level Evaluator, Ms Gertrude Tumpel-Gugerell, for her extremely valuable look into the work of the EFSF and the ESM. I will build on her presentation, to put the report in a broader context and give you an idea of how the ESM is planning to follow up on her recommendations.

Let me take you back to the moment the ESM was established. This was at the height of the euro debt crisis, and a period of great stress. Several countries had lost market access, something which people thought simply could never happen in the monetary union. Consequently, there was no mechanism to deal with it. Markets were betting the euro would break up. Europe had to act quickly. And thus the EFSF and ESM twins were born in a period of great upheaval – and yet they needed to act without delay.

It would be unrealistic to expect that everything was perfect right from day one. I was there from the very beginning, when we were only three people. And I can assure you that we needed to find many innovative solutions to many practical

problems. Needless to say, this was what they call a steep learning curve. This is now seven years ago, and a lot has changed since then. The crisis is behind us, and we have gained some experience. So now is a good time to look back. And that's why the evaluation report was so welcome.

The ESM is a young institution and is willing to learn and mature. The evaluation offers an opportunity to do both. Independent evaluations are widely recognised as best practice by international financial institutions. Most of our peers regularly carry out similar exercises, to measure how they have performed, detect areas for improvement, and draw lessons for the future. So I think we will see a further evaluation at the ESM in the future. Our Board of Governors has already indicated it also wants to evaluate the current Greek programme, which was out of scope for this report.

The evaluation exercise also fits the ESM's objective of being a transparent public institution. We've taken a few steps towards that goal as well. In the past year, for instance, we decided to make more documents related the meetings of our governing bodies available on our website. We also engaged with Transparency International. This well-respected non-governmental organisation drew conclusions about the ESM that were generally very favourable.

The experience gained during the crisis has helped the ESM take on a growing number of tasks. The EFSF was designed as a temporary institution with a very restricted mandate. Its main role was disburse loans. all planning and monitoring work was done by the other institutions. Now, the ESM is involved in many more areas. These include the monitoring of a country's ability to pay back loans - through our Early Warning System - and debt sustainability analysis. The ESM is also increasingly involved with the other institutions in the financial planning because it makes proposals about the size and timing of programmes, and disbursements. In selected financial areas, where we have a particular interest - such as banking and privatisation - we provide input to programme conditions and implementation. When requested by national authorities, we have also engaged in technical assistance for debt and risk management.

This growing role is neatly reflected in how programme countries and our partners perceive the ESM and the EFSF. In the case of Ireland, we were seen as weakly engaged. But in the later programmes, the evaluation assessed our engagement

more positively, and overwhelmingly so in Cyprus, our latest programme. This reflects more frequent contacts and a stronger role during programme planning, execution and monitoring.

It is gratifying to see that the report recognises several of these achievements. It concludes that the ESM was indispensable for euro area financial stability. It shows that the ESM contributed to the reduction of macroeconomic imbalances across the euro area, which were one important reason for the crisis. Finally, the ESM brought budget savings to programme countries, because of its favourable lending conditions, which support debt sustainability.

But of course there are also lessons to learn. Ms. Tumpel-Gugerell just presented her six recommendations. The report is well worth reading, including the analysis backing the conclusions. Our Board of Governors – that is, the 19 euro area finance ministers – decided to set up two separate work streams to implement some the recommendations. Let me give you some detail of that.

First, the Board has mandated the ESM Management to propose a plan to improve its working methods. The aim is to gain programme transparency, and facilitate cooperation with others. Possible steps are setting up a database with non-market-sensitive data during a programme, and improving record-keeping. This would help us in evaluating future programmes, and make it easier for external analysts to follow and scrutinise them in a timely manner. We could also develop programme documents to give more clarity for so-called contingency buffers - the extra money available as leeway to deal with surprises in future programmes. Then, we might in the future require a formal closing report at the end of each programme. And lastly, we could propose more formal cooperation and information-sharing agreements with other institutions such as the ECB and possibly the International Monetary Fund.

A second workstream concerns itself with enhancing the ESM's policy framework. These efforts are aimed at improving programme effectiveness, by instilling more credibility and ownership. In this light, we will be reviewing the ESM's support toolkit and our disbursement criteria. We aim to achieving clearer objectives and priorities. As so often, theory is easy, but practice is not. One way forward might be to rank programme conditions with a clear priority. In view of the report's recommendations, we also need better to be able to analyse how programme objectives translate into reform requirements and problems in the financial should always be tackled in the

initial programme strategy.

Finally, the finance ministers decided there would be no immediate follow-up on the role of the ESM in the euro area institutional development. Instead, this will be part of a broader political debate about the next steps Europe should take to make monetary union more robust. In the eyes of the public, this may well become the most visible part of the debate. Nevertheless, the debate can only start in earnest after the German elections later this month. There is a host of ideas around, and while it is very likely that further steps will be taken, it is too early to say what they will be.

The birth of the ESM seven years ago has shown it is possible to establish a new euro area institution, and for it to quickly become effective. The ESM has developed itself into a credible institution in several areas. It has always done this with its mandate in mind, and from the perspective that its loans need to be repaid. This means there is a focus on topics such as debt sustainability, the monitoring of a country's repayment capacity and financial sector restructuring. This has brought new expertise on subjects of central importance when thinking how to make the euro area more robust. The political debate will decide if, how and when Europe will establish its own monetary fund. But an EMF would certainly need these areas of expertise, and have a say on programme conditionality.

The final recommendation in the evaluation report furthermore suggests to expand the ESM's early warning system. At the moment, the EWS is for programme countries only, and is limited in scope. Expanding it would seem a small addition to the ESM's roster of tasks. But even this would require changing the ESM legal framework, which requires unanimous support from Member States.

The range of options for politicians to discuss is of course much wider than the question of what an EMF should look like. It includes a financial backstop for the Single Resolution Fund, a common Deposit Insurance Scheme, the simplification of the fiscal rules, a permanent president of the Eurogroup, and possibly a fiscal capacity for the euro area or even a euro area Treasury function in the long-run. Some of these ideas are complementary and the sequence how they might be introduced will matter a lot. Some are close to the mandate of the ESM, others are much further removed.

As I said, the political debate will determine which of these many ideas might become reality. It is certain however, that the sentiment about Europe has changed drastically in the past year. Investors are now telling us that they regard Europe as a safe haven, while high political uncertainty is clouding the outlook for the United Kingdom and the U.S. Europe has its best chance in a long time to strengthen monetary union, and protect the many benefits that the euro brings. This is now a task for our political leaders. The evaluation report by Ms Tumpel-Gugerell serves as a timely input into that debate. And that is yet another reason why it is so valuable.

Thank you for your attention.

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